

CONTROLLING – A MODERN SYSTEM OF MANAGEMENT AND CONTROL

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Abstract. *This article tries to clarify the essence of controlling as a concept and the way of implementation and place of application thereof.*

Controlling is a concept concerning the management of a given system, enterprise included, and as such it receives a high recognition in practice, both in the U.S. at the beginning of the 20th c. and in Europe during the second half of the last century. It is widely popular in Germany where it was first introduced from the U.S. and where huge efforts are being made to develop and implement the same.

At the end of the 20th and the beginning of the 21st c. controlling finds wide application both in Russia and in the Eastern-European countries. The aim is most clear – with the help of the controlling to try to catch up with leading countries in market economy, management and control, including in the time of crisis.

Key Words: *controlling, management, planning, accounting, strategy, control*

EXPOSE

The word 'controlling' derives from the English verb 'to control' – to run, to manage.

It is the management accounting that constitutes the basis of controlling. The concept of controlling was developed in the 70s of the 20th century as a vehicle designed to prevent crisis situations leading companies to bankruptcy¹. A key principle of this concept, also referred to as 'management according to deviations', is the operational comparison of the main planned /normative/ and factual indicators with the purpose of outlining the deviations between them.

Controlling represents a group of methods for operational and strategic management: registration, planning, analysis and control, which are combined on a qualitatively new

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¹ 'Planning and Control – the Concept of Controlling' D. Han – 1997

stage of the development of market relations into a unified system, the functioning of which is subordinated to a particular purpose.²

Controlling is an instrument for planning, accounting, analysis and control of the status of the operations within an enterprise; it is used for decision-making on the basis of a system for data collection and processing, which is a system of constant assessment from different points of company's business, of company's branches, managers and employees, and which comprises accounting, analysis and control as an integrated function.³

This requires:

- increase of the level of knowledge of the specialists within the organization and activation of their intuitive and logical awareness, which will promote flexibility of the management system and attain the objectives of the company at the same time;
- formation of a controlling system which is to become the basis for the timely improvement of the informational and methodical support of company's management and to minimize the probability of an occurrence of collapses between the needs of the environment and opportunities of the enterprise to satisfy the same;
- creation of instruments in the field of prognostication of the efficiency of the interaction of the controlling and the management within the organization, of the choice of the rational direction of their development and the analysis of the production processes and realization of the produce of the enterprise.

Controlling as a complicated and versatile category cannot be fully realized without the related methodological basis. Whenever starting research in a particular field, we are to have a clear idea of what controlling means, characterize the terms 'controlling system', 'instruments of controlling', 'functions of controlling', as well as formulate and systematize the main principles and requirements for its implementation into the management structure of the organization.

Scholarly literature proposes a number of different definitions of controlling, which differ mainly because of the research approaches used.

First, controlling used to be conceived as an aggregate of tasks solved in the field of reporting and finance, and the controller was the accountant general. Later on, the term was given a broader sense. Financial control and optimization of the funds and sources used for attainment of the overall objectives and the results from the business operations, including the amount of taxes was supplemented to the controlling functions⁴ /in economic sense controlling is a profit management system/.

The development of controlling and its implementation within organizations was, to a great extent, influenced by the economic crises. The years of depression led to the awareness that successful management is strongly related to inter-company planning. This, on its turn, led to evolution of the views of controlling: from the historical accounting view in the understanding of controlling and its functions as oriented to future events.

Currently, controlling is a functionally individuated field of the economic operations of the enterprise, which is related to realization of the financial, economic and controlling function within the management for taking operative and strategic managerial decisions.

² 'Controlling for Managers and Specialists' Falko S.G. – Moscow – 2008

³ 'Controlling' Karminskyi A.M., Falko S.G. – Moscow – 2006;

⁴ 'Controlling for Beginners' R. Man, E. Mayer – Moscow – 1992

This can be explained by the means of the well known 'comparison of the controller with the pilot'.

Let us imagine that the company is the navy pursuing the objective following a set course. The navy has an admiral. He is the master of the company. Furthermore, navy comprises ships – they are the functional areas of company's activity: production, marketing, purchase, finance, etc. Ships are headed by captains, in our case – head of production, financial director, HR manager, marketing director, etc. All of them, along with the admiral, are the navy top management.

Furthermore, the navy has its pilot or navigation officer – this is the economic adviser, the controller, whose duties are to timely predict the shallows on the course and, based on the information available, suggest to the navy management the probability of an the risk for the ships to get stranded, the seriousness of the consequences of such event, etc.

The navy management should unconditionally pay attention to the recommendations of the navigation officer and assess all pros and cons prior to taking a decision: to change the course or to proceed straightforward notwithstanding the circumstances, following the principle 'let's wish to go through'. The decision is always with the management. The admiral and the captains are liable for their decisions, especially if they have ignored the warnings of the navigation officer⁵.

Therefore, controller should not be identified with the manager since the navigation officer never stands behind the wheel but is responsible for the ship to reach the harbor.

Main objective of controlling is to orientate the management process towards attainment of the objectives set by the company managers⁶. For this purpose, controlling employs a set of instruments, i.e.:

- Benchmarking /analysis of and comparison with the competitors/
- Scenario analysis /design of development scenarios/
- Value analysis, etc.

The issues pertaining to the organization of controlling are to be settled individually for each company, taking into consideration the specificity of its operations. However, when it comes to the most general requirements and approaches known nowadays, the following key ones can be outlined:

1. Establishment of an own controlling division. This variant has the following advantages:
 - Company employees are familiar with the internal organization of the company and branch specificities of the business;
 - Habits and experience gained remain in the company;
 - Company management can use the division as a 'ground' for professional growth and career development of the future management staff;
2. Involvement of outsourcing – implementation of all or some of the functions related to the corporate management by external specialists, i.e. controlling functions to be wholly or partially assigned to a specialized company or external consultant.
3. Co-sourcing – this means the establishment of controlling bodies within the company, and, in some cases, involvement of experts from specialized companies or external consultant to be involved.

⁵ 'Business Controlling' Popchenko, Ermasova – 2006

⁶ 'Controlling as a Company Management Instrument' Anankina, Donilochkin – 2002

However, in experts' opinion, it is not advisable for each enterprise to establish its own controlling division. Potential benefits from the outsourcing and co-sourcing approach include:

- The opportunity to use the services of experts from various fields;
- Access to highly qualified management staff;
- Flexibility in respect to attraction of resources /for instance, in case of implementation of a new system the staff of the managers will not be required to be increased or resources to be transferred from the implementation of other projects/;
- Access to leading technologies and profit management methods.

Various organizations prefer to approach outsourcing and co-sourcing. These organizations are both small and medium-sized enterprises, which have not enough funds available to establish their own division, and some big companies.

If we review the experience of the European states, Germany for instance, where controlling has been implemented since the 50s of the 20th century, big companies are more interested in controlling, which is completely understandable. Usually, the more and more the company grows, inter-company transparency usually decreases but the strive for everything to be known remains. Big companies can afford to finance implementation of new managerial technologies, because if at least one of these technologies gives results, the effect of its implementation will cover the costs of all remaining innovations. Small and medium sized enterprises, in general, have no budgets for risk projects and are waiting for the results from implementation of new ideas in the big businesses.

As far as business fields are concerned, production companies were the first interested in the controlling. This relates to the keen price competition in most production branches, the constant update of technologies, reduction of the lifecycle of products and growth of indirect costs. All these factors require constant search for internal reserves to improve the efficiency of the company's business.

However, increase of the competition and dynamics of the environment became the reason for the controlling to be implemented also in companies in the field of services, etc.

Unlike European companies, in most Eastern-European companies management accounting is, to a certain degree, interrelated to accounting. This can be explained by the great number of 'grey' operations caused by the bureaucracy and the tax policy of the state, as well as by the strive of the companies to minimize taxes. In order to implement the controlling, these enterprises are forced to integrate into a unified accounting system first and foremost the strictly differentiated information about the 'white' and the 'grey' operations, which causes additional costs and can impose expansion of the number of accountants⁷.

Notwithstanding the controlling, each average company has a minimum of two reporting systems – accounting and management. Accounting concerns data gathering and processing for its submission to external controlling and auditing government authorities, while management accounting is performed in compliance with the principles of the steady economic logics and gives view of what exactly happens within the company. Aspects like individual assessment of doubtful indebtedness and non-liquidity or benefits forgone accounts, which are rather immediate and topical for most of the companies, are not stated in the financial statement. Furthermore, a number of companies have one more statement – in compliance with the International Accounting Standards.

⁷ 'Business Tax Planning' W.R. Storn, K.A. Britain – 2009

National norms regulating accounting and the variety of restrictions complicate controlling to an extreme extent. The regulation of business is mainly directed to making companies pay greater taxes. Laws *limit* entertainment and advertising costs, costs of consulting services. If expenses of the companies exceed the legal norms, company must cover them out of the net profit, i.e. out of the profit after payment of taxes. A number of companies from Eastern-Europe are still experiencing a period of relative growth notwithstanding the economic crisis and controlling is still not a pressing problem for them. These companies still have not experienced the stage of search for external reserves, the stage of 'squeezing out water drops from the slightly damp cloth'. However, in companies, which are already in a calmer stage of development, standard programs for 'establishment of order' start with the correct organization of the management accounting and budgeting, and even in a number of cases – practically from zero. This is usually conditioned by the decision of the managers or of the incorporators.

The broad implementation of controlling is impeded by the popularity of holding structures. The characteristics of controlling in such organizations relates to the need of taking into consideration the specificity of several branches at one and the same time. Controlling in holding structures includes analysis of the internal /transfer/ prices system and the work of the financial department of the holding, which provides operating capital to the business units of the company in return for certain remuneration. Except for the paid capital, the management company can render to the business units particular services /accounting, planning, IT – support, legal services/, which are also paid by the business units.

Yet another purely 'domestic' problem is the mistrust in the western management experience.

The implementation of the controlling system is a complicated and long-term process, which can comprise several consecutive stages.

Stage One

This stage is typical for organizations which have operated for a long period of time. The tasks of the stage are the description and analysis of the existing information system of the organization, mainly the accounting system. As a result, there appear the schemes of the organizational managerial structure, of the information flows of the enterprise, description of the accounting system. Specificities and disadvantages of the existing system should be determined on this stage.

Stage Two

The quality and the quantity of the information required for the effective management of the organization are determined. Omissions in the existing information system are outlined, reasons for this are elucidated and the scope of the changes of the management system are evaluated.

Stage Three

The relevant formalized system shall be produced in a form able to collect, process and produce information relevant to the needs of the managers. Centers of responsibility

are assigned on this stage – segments in the organization headed by persons in charge of decision-making.

Furthermore, variants for registration of the production costs and calculation of the price cost of the production /standard-cost, direct-costing/, method for calculation of the prime cost of the operations /ABC-cost/, method of calculation by targets /target-cost/, strategic cost management method.

Stage Four

It is characterized by the implementation of a management accounting system. Management accounting represents aggregate of statements and summary information drawn by the centers of responsibility, which include information with the related level of legalization⁸.

Stage Five

Construction of an internal production analysis system. The main purpose of the analysis is assessment of the financial and economic operations of the company on the basis of the management analytical accounting and development of recommendations for its improvement.

So far it has become clear that the main mission of controlling is to provide informational and consultation backup to the management of the company. As we all know, the management of the company can be divided into strategic, operational and dispositive one. Thus, controlling as an instrument of the management, could be divided into:

- strategic /making sure that the right job is done/
- operational /making sure that the job is done right/
- dispositive /what to do if the job is not being done right⁹.

▪ **Strategic controlling** – it is well known that the successful business management needs to know what the purpose of the company is and how it carries and intends to continue to carry out its activity in the future, i.e. to specify the objectives of the company and to pursue this objective following the path that combines in an ultimate way the size, development and profitability of the business. It is under this condition only that the company will be led towards the right job to do. That's why it is imperative for the companies to create controlling units, or the so-called controllers to act as internal advisors who assist the management in the development of company's mission, setting the key target figures of company's operation, development of a strategy for their accomplishment, specifying the factors for a success and the development of the activities necessary to accomplish the tasks set. What is more, they are to propose methods for a permanent monitoring of the vitality of the strategic plan chosen, to participate in the creation of the information system for early detection of deviations from the preset path and to assist the management in the necessary adaptation to the strategic plan and the activities needed to accomplish the objectives set with respect to changing conditions.

⁸ 'Controlling' Karminskyi A.M., Falko S.G. – Moscow – 2006

⁹ 'Controlling – Fundamentals of Controlling, Operational Controlling' Ognyan Simeonov – Sofia – 2004

- **Operational controlling** – it ensures the ongoing movement towards the strategic objectives of the company year after year by developing and reaching specific operational objectives. By setting operational objectives in conformity with the strategy, by reaching these objectives and setting new operating limits based on the current status of the business, the company approaches, step by step, its strategic objectives.

Yet another important aspect of this process is the horizontal coordination of operational objectives of the individual business trends so that they match the operational objectives of the company as a whole.

It is obvious that the accomplishment of operational objectives is made in different ways and by different rate. It is also obvious that the optimal accomplishment of these objectives presupposes the most effective use of available resources. Here we can repeat the main functions of management or controlling: planning, organization, management and control of company's resources. Henceforth, we can see the role controllers – by organizing the operational controlling system¹⁰, which includes the sub-systems for operational planning, accounting, control and analysis, it assists the management in the optimal accomplishment of the objectives of the company. In other words, controllers help the managers do the job right.

Here we have to point out the mutual relationship existing between the strategic and operational controlling. On one side, strategic controlling determines the direction that the operational controlling follows. On the other side, operational controlling moving along with the company on its way, fixes the speed of movement and used-up resources thus checking how realistic the strategic objectives are and, if necessary, offering the management to reconsider these objectives or pursue them in a different way.

- **Dispositive controlling** – points out 'what to be done if the job is not being done right' by regulating the implementation of the operational plan.

Dispositive controlling is comparing the operational plan, locating deviations and decision-making for counteraction over business processes if the discovered deviations impeach the accomplishment of the objectives, i.e. in the course of dispositive controlling actions are proposed to correct the disposition of the current status of company's activity in order to accomplish desired operational objectives. These could be solutions for urgent advertising campaigns to activate sales, temporary suspension of purchase of goods in order to reduce on-hand quantities, replacing suppliers, liquidity solutions, staff cuts, changes in policy for encashment of debit liabilities /indebtedness/ or any other unscheduled activities and redistribution of resources that could improve the situation in the course of accomplishment of operational objectives.

At the same time, no corrections should be made to operational plans under the pretext of dispositive planning. The misconstrued application of dispositive planning, i.e. not the organization of unscheduled activities aimed at accomplishing the operational plan but correction in the plan itself in the course of its implementation due to current, newly-established circumstances, could 'help' the unconscientious management ensure a 100% accomplishment of operational plan but that will not help the company advance towards desired objectives.

¹⁰ 'Controlling – Fundamentals of Controlling, Operational Controlling' Ognyan Simeonov – Sofia – 2004

Therefore, reason for the revision of the annual operational plan could only be revision of the strategic objectives of the company and correction to the strategic plan.

In order to implement controlling in conformity with the objectives it is necessary to clear out the positions and tasks of the controlling unit or the controllers. They are expected, if we could paraphrase the fundamental statute of marketing, to provide the information needed at the right time and at the right place; therefore, they have no other option but to create an information system. A system that will allow the timely, comprehensive and true information services to the management on the status of the internal and the external environment and both in factual, and in planning and prognosis terms when we are speaking of a more long-term perspective¹¹. This system should include the identification, measurement, gathering, analysis, preparation, interpretation and delivery of information.

In order to organize such a comprehensive system, controllers should create and maintain a database, and subsequently, if necessary, improve the applied methods, rules and procedures of certain business processes such as planning, budgeting, accounting, control and analysis of company's operation.

- **Planning** – it is obvious that any business process will operate effectively only if it is professionally created and organized. This could be achieved only by a professional. In our case, we are speaking about a controller who is not only perfectly versed in the subject, i.e. has good command of the planning methods and technology, but is also able to orientate himself well in the specifics of the business of his company, and with this, is able to clearly see the objective the planning system is introduced for.

The controller is responsible not only for the setup of the planning system but also for the staff adaptation to the operation of this system, staff training to operate and plan. Controller's obligations also include the provision of all the necessary economic information to the participants, for example, providing factual data for past periods, target figures in perspective, planning meanings of various ratios, limits and norms, estimated inflation figures, etc.

The controller is not directly involved in the development of plans, i.e. he does not do the job of the managers of the sales, purchase, production and other departments or of his subordinate units. Each of them knows perfectly what exactly could be accomplished during the planned period and what are the resources needed therefore. At the same time, these managers may and should seek the services of planning specialists, i.e. of controllers in all cases when they need assistance and advice.

- **Accounting** – with it controller is responsible for the setup of system for registration and accounting that meets the requirements of the management.

What is more, the design stage thereof should exclude the interests of the key users of the accounting within the various segments of the management information. The beset way is to stock to the golden rule of management accounting – give each manger the accounts he needs, nothing more and nothing less.

The exploitation of the developed and introduced system of management accounting, that is the registration itself, including the input of the source information, should be done

¹¹ 'Controlling for Managers and Specialists' Falko S.G. – Moscow – 2008

directly by the respective staff. In companies where the circulated information is mainly on hard copies, this work is done by the accounting department or the analogical accounting subdivisions.

- **Control** – the most important functions of controlling include: control to accomplish set objectives, locating deviations from the plan, analysis of the reasons thereof, and taking part in the development of corrective measures.

On locating the deviations the controller is to inform the manager in charge and provide all necessary assistance. In his approach the controller must show high opinion and respect to the manager irregardless of the position held. With this, the level of responsibility of the manager increases since his competence includes the regulation of incomes and expenses, which are under his control. However, we should bear in mind that responsibility comes only when together the assignment of reasonability the manager is delegated powers to make decisions for eliminating the reasons for unfavorable deviations.

Thus, the controller does not control the others, but makes sure that each manager can control himself by himself in the process of accomplishment of the objectives set before the company.

However, this principle works only if the company is actually setting objectives before itself, i.e. there are certain criteria for self-control within the company itself. The last condition is for the controller to propose a signal system for the deviations allowing the manager to orientate himself or undertake corrective measures or correct the set course towards the objective.

- **Management on the occasion of deviations** – once deviations are identified, same should be analyzed to establish the reasons thereof; however, this analysis may not and should not be fatal. This is not expedient since the process of analysis may be rather expensive and the expenses are not always worth it. That's why first and foremost we need to clarify the nature of the deviation: whether it is regular or one-time only. In that last case, no analysis need be done if the deviation does not exceed a given threshold quantity. Only material deviations are analyzed. The criteria thereof are set in each company individually.

The controller, together with the managers, analyses the information and interprets the results thereof. The task of the controller is to clarify to the manager the economic meaning of the results from the comparison of the planned and actual figures and help the manager clarify to himself the reasons for the deviations without imposing his own interpretation of these reasons, and what is more, without offering ready-made solutions. An interference is possible only when it becomes obvious that the manager cannot solve the problem and is taking a wrong course.

In any case, at the stage of corrective solutions for elimination of the deviations each manager acts independently within the limits of his competence. In case of deviations that overreach his competence, the manager is to address to the higher manager.

CONCLUSION

Thus summarized, the opportunities of controlling as a system of management and control could find suitable conditions to be introduced and developed, especially the sooner the management and the various levels of management realize the necessity of it.

Irregardless of some claims that controlling is needed only in big, powerful corporations, I dare say that it can find application in any company irregardless of its size.

In this sense, without being a heal-all, controlling comes up to be one of the most serious instruments for increase of the efficiency of business and for the faster overcoming of the economic crisis, and the recovery and accomplishment of the objectives set before the business.

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KONTROLING – MODERAN SISTEM MENADŽMENTA I UPRAVLJANJA

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Ovaj članak pokušava da objasni suštinu koncepta kontrolinga i njegove načine implementacije i mesta primene.

Kontroling je koncept koji se odnosi na menadžment datog sistema, uključujući preduzeće, i kao takav dobio je visoko priznanje u praksi kako u SAD početkom 20. veka tako i u Evropi tokom druge polovine prošlog veka. Veoma je popularan u Nemačkoj u koju je donešen iz SAD i gde se ulažu ogromni naponi u cilju njegovog razvoja i implementacije.

Krajem 20. i početkom 21. veka kontroling je našao široku primenu kako u Rusiji tako i u zemljama Istočne Evrope. Cilj je jasan – pokušati da se sustignu vodeće države u tržišnoj ekonomiji, menadžmentu i upravljanju uz pomoć kontrolinga, bez obzira na krizu.

Ključne reči: kontroling, menadžment, planiranje, računovodstvo, strategija, upravljanje.